



# Fox Corp. (FOXA)

Updated November 28<sup>th</sup>, 2021 by Felix Martinez

## Key Metrics

|                             |      |  |      |                                  |                       |
|-----------------------------|------|--|------|----------------------------------|-----------------------|
| <b>Current Price:</b>       | \$38 | <b>5 Year CAGR Estimate:</b>               | 8.6% | <b>Market Cap:</b>               | \$20.8 B              |
| <b>Fair Value Price:</b>    | \$43 | <b>5 Year Growth Estimate:</b>             | 5.0% | <b>Ex-Dividend Date:</b>         | 03/03/22 <sup>1</sup> |
| <b>% Fair Value:</b>        | 88%  | <b>5 Year Valuation Multiple Estimate:</b> | 2.5% | <b>Dividend Payment Date:</b>    | 04/01/22              |
| <b>Dividend Yield:</b>      | 1.3% | <b>5 Year Price Target</b>                 | \$54 | <b>Years of Dividend Growth:</b> | 0                     |
| <b>Dividend Risk Score:</b> | B    | <b>Retirement Suitability Score:</b>       | C    | <b>Last Dividend Increase:</b>   | N/A                   |

## Overview & Current Events

Fox Corp. is a television broadcasting company with a \$20.8 billion market cap. The Company, known among insiders as "New Fox," was spun off from the former 21st Century Fox when The Walt Disney Co. (DIS) acquired most of that Company's assets in 2019, including its cinema entertainment business. Since the spinoff, Fox Corp. has been a much more focused company, with its operations centered on Cable Networks & Television. For Fiscal Year (FY)2021, the Company generated \$12.9 billion in revenue.

On November 3rd, 2021, Fox Corp. reported first-quarter results for Fiscal Year (FY)2022. The Company reported total quarterly revenues of 3,050 million, a 12% increase from the \$2,720 million reported in the first quarter of FY2021. Overall, the Company saw strong growth across all revenue categories. For example, advertising revenues increased 17%, primarily due to continued growth at Tubi and the return of a full schedule of live events at FOX Sports compared to last year. Affiliate revenues increased 9%, with 14% growth in the Television segment and 5% growth at the Cable Network Programming segment. Other revenues increased 15%, led by the return of sports sublicensing revenues at the Cable Network Programming segment, which COVID-19 impacted in the prior-year quarter. However, Fox Corp saw a significant decrease in net income of (36.6)% for the quarter compared to FY2021, primarily due to the absence of a \$462 million gain recognized in Other, net in the prior-year quarter, which is associated with the cash reimbursement received from Disney for the Company's prepayment of its share of the tax liabilities resulting from Disney's divestiture of certain Twenty-First Century Fox assets.

Thus, the Company made \$1.21 per share for the quarter compared to \$1.83 per share FOXA made in the first quarter of FY2021. We expect that FOX Corp will earn \$2.84 per share for the fiscal year 2022. This will be (1)% lower than what the Company made in FY2021.

## Growth on a Per-Share Basis

| Year                      | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019   | 2020   | 2021   | 2022          | 2027          |
|---------------------------|------|------|------|------|------|------|------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | ---  | ---  | ---  | ---  | ---  | ---  | ---  | \$2.63 | \$2.48 | \$2.88 | <b>\$2.84</b> | <b>\$3.62</b> |
| <b>DPS</b>                | ---  | ---  | ---  | ---  | ---  | ---  | ---  | \$0.23 | \$0.46 | \$0.46 | <b>\$0.48</b> | <b>\$0.48</b> |
| <b>Shares<sup>2</sup></b> | ---  | ---  | ---  | ---  | ---  | ---  | ---  | 621.0  | 621.0  | 621.0  | <b>578.0</b>  | <b>578.0</b>  |

Fox Corp. is a more focused company following the asset sale. Fox News, Fox Business, Fox Sports, Fox Broadcasting, and other TV assets will remain highly relevant. It helps that Fox News has no mainstream competition in the conservative news arena. The assets that Fox retained are not very cyclical or vulnerable to recessions, compared to, for example, the more cyclical filmed entertainment business. The past year saw an earnings growth of 16.1%. However, we expect a positive slower earnings growth of 5% for the next five years. The Company pays a dividend semiannually, and since the Company has just started paying out, we do not know if they will be growing dividends constantly. Thus, we have a dividend growth rate of 0% for now.

<sup>1</sup> Ex-Dividend and Dividend Payment Date are estimates.

<sup>2</sup> Share count in millions

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Currently, Fox's most significant growth prospects are with FOX Bet. Analysts expect the sports betting industry to generate \$9 billion in gambling revenue over the next few years. Fox Corp. is in an excellent position to grab a chunk of that. In the immediate term, Fox should see growth as more and more events and businesses start to be fully operational, bringing improved ratings to its news network.

## Valuation Analysis

| Year      | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now         | 2027        |
|-----------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg. P/E  | ---  | ---  | ---  | ---  | ---  | ---  | ---  | 14.4 | 16.4 | 12.9 | <b>13.2</b> | <b>15.0</b> |
| Avg. Yld. | ---  | ---  | ---  | ---  | ---  | ---  | ---  | 0.6% | 1.7% | 1.3% | <b>1.3%</b> | <b>0.9%</b> |

The Company was valued with a PE of about 14.6 for the past few years. However, we think that a 15x valuation is fair for this Company. Currently, The Company is trading hands for a PE multiple of 13.2. This PE provides a moderate valuation multiple expansion of 2.5%, and The Company is under our fair price of \$43. The Company dividend yield is also very unattractive considering that the S&P 500 current dividend yield is 1.29%.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year   | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020  | 2021  | 2022       | 2027       |
|--------|------|------|------|------|------|------|------|------|-------|-------|------------|------------|
| Payout | ---  | ---  | ---  | ---  | ---  | ---  | ---  | 8.7% | 18.5% | 16.0% | <b>17%</b> | <b>13%</b> |

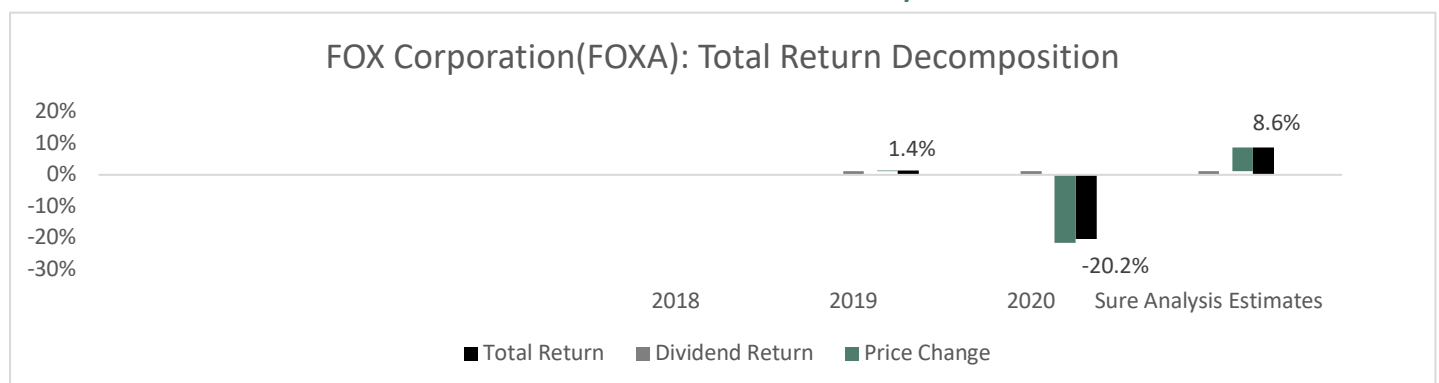
21st Century Fox paid out ~20% of its net profits in the form of dividends throughout most of the last decade. The payout ratio has been even lower during some of the previous years. Fox Corp. paid 16% of its profits in 2021, with an estimated 2027 payout conservatively around 13%. The low payout ratio means that the dividend looks very safe, although the low dividend yield is not especially attractive for income-focused investors.

According to peers, Fox Corp's most influential position has always been in its news channels and sports programming – assets The Company continues to own after the deal with Disney. The sale of some assets could improve Fox's position in the long run, as it allows The Company to focus on the businesses it is best at, Cable & TV broadcasting. The TV business is not very cyclical, so Fox Corp. will likely be less vulnerable in future recessions. The Company currently has a debt to equity ratio of 0.7 and an Interest Coverage ratio of 7.1. Thus, The Company has an excellent balance sheet.

## Final Thoughts & Recommendation

Fox kicked off 2022 with spectacular viewership numbers as more sporting events are coming back. Next year should only get better for the network as advertising grows and more sporting events start again. Also, the growth of sports betting is a massive win for the Company as well. Based on our estimates, shares are currently slightly undervalued. We estimate the following five-year projected returns to be only 8.6%. Thus, we rate FOXA a Hold at the current price.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year             | 2012 | 2013 | 2014 | 2015 | 2016  | 2017  | 2018   | 2019   | 2020   | 2021   |
|------------------|------|------|------|------|-------|-------|--------|--------|--------|--------|
| Revenue          |      |      |      |      | 8,894 | 9,921 | 10,153 | 11,389 | 12,303 | 12,909 |
| SG&A Exp.        |      |      |      |      | 1,191 | 1,117 | 1,262  | 1,419  | 1,741  | 1,807  |
| Operating Profit |      |      |      |      | 170   | 169   | 171    | 212    | 258    | 300    |
| Op. Margin       |      |      |      |      | 1.9%  | 1.7%  | 1.7%   | 1.9%   | 2.1%   | 2.3%   |
| Net Profit       |      |      |      |      | 1,974 | 2,535 | 2,215  | 2,431  | 2,497  | 2,765  |
| Net Margin       |      |      |      |      | 22.2% | 25.6% | 21.8%  | 21.3%  | 20.3%  | 21.4%  |
| Free Cash Flow   |      |      |      |      | 1,072 | 1,372 | 2,187  | 1,595  | 999    | 2,150  |
| Income Tax       |      |      |      |      | 990   | 1,464 | 1,102  | 2,289  | 2,006  | 2,155  |

## Balance Sheet Metrics

| Year               | 2012 | 2013 | 2014 | 2015 | 2016 | 2017   | 2018   | 2019   | 2020   | 2021   |
|--------------------|------|------|------|------|------|--------|--------|--------|--------|--------|
| Total Assets       |      |      |      |      |      | 10,348 | 13,121 | 19,509 | 21,750 | 22,926 |
| Cash & Equivalents |      |      |      |      |      | 19     | 2,500  | 3,234  | 4,645  | 5,886  |
| Acc. Receivable    |      |      |      |      |      | 1,693  | 1,833  | 1,967  | 1,888  | 2,029  |
| Inventories        |      |      |      |      |      | 1,052  | 1,180  | 1,129  | 856    | 729    |
| Goodwill & Int.    |      |      |      |      |      | 5,871  | 5,613  | 5,542  | 6,607  | 6,589  |
| Total Liabilities  |      |      |      |      |      | 4,255  | 3,527  | 9,551  | 11,639 | 11,801 |
| Long-Term Debt     |      |      |      |      |      | 0      | 0      | 6,751  | 7,946  | 7,951  |
| Total Equity       |      |      |      |      |      | 6,093  | 9,594  | 9,947  | 10,094 | 11,123 |
| D/E Ratio          |      |      |      |      |      | 0      | 0      | 0.68   | 0.79   | 0.71   |

## Profitability & Per Share Metrics

| Year             | 2012 | 2013 | 2014 | 2015 | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  |
|------------------|------|------|------|------|-------|-------|-------|-------|-------|-------|
| Return on Assets |      |      |      |      |       |       | 18.6% | 9.8%  | 4.8%  | 9.6%  |
| Return on Equity |      |      |      |      |       |       | 27.9% | 16.3% | 10.0% | 20.3% |
| ROIC             |      |      |      |      |       |       | 27.9% | 12.1% | 5.7%  | 11.6% |
| Shares Out.      |      |      |      |      |       |       |       | 621.0 | 621.0 | 621.0 |
| Revenue/Share    |      |      |      |      | 14.35 | 16.00 | 16.38 | 18.34 | 19.97 | 21.70 |
| FCF/Share        |      |      |      |      | 1.60  | 2.36  | 1.78  | 3.69  | 3.26  | 3.62  |

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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